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K mart Signs with Prodigy Service

(Continued from page 1)

marketers and service providers, Prodigy's clients now include three of the nation's leading four merchants—Sears, K mart and JCPenney—along with such other retailers as Nieman Marcus, ComputerLand, Florsheim, The Broadway and Spiegel.

K mart has set Feb. 1, 1989, as the target date for its debut on Prodigy, "but if we can get our ads up sooner, we will start sooner," said Russell Jones, K mart's director of planning and research, who is heading up the discounter's move into electronic retailing.

The discounter's ads will run in all current Prodigy markets—Atlanta, San Francisco and Hartford, Conn., as well as White Plains, N.Y., where the service is headquartered—along with 16 new cities such as New York that are due to get the service in 1989.

While K mart believes "it has a lot to offer Prodigy users," the key reason for its move is reaching "shoppers we aren't particularly effective at selling a broad range of goods," Jones said.

He identified this group as "more upscale shoppers, leading-edge, two-income families who are catalog shoppers." They visit K mart for staple merchandise and now the discounter "wants to make them familiar with the rest of the store" and "see if we can sell them jewelry, sporting goods, cameras."

K mart will use Prodigy to promote selected hard goods: jewelry, consumer electronics, sporting goods, cameras and home fashions like the Kitchen Korner.

Prodigy ads won't be tied into K mart's roto program as "we will want to run some Prodigy promos for longer than a week," he said.

K mart hasn't ruled out using Prodigy to take orders for merchandise as some other retailers on the systems are doing. This step could also result in the discounter developing its own mailing list of upscale consumers for direct marketing purposes.

K mart's flexibility in changing ads is limited by the videotex technology and the discounter's interest in reaching as wide an audience as possible. Text of ads can be quickly changed, even weekly, but revamping the computer graphics takes longer.

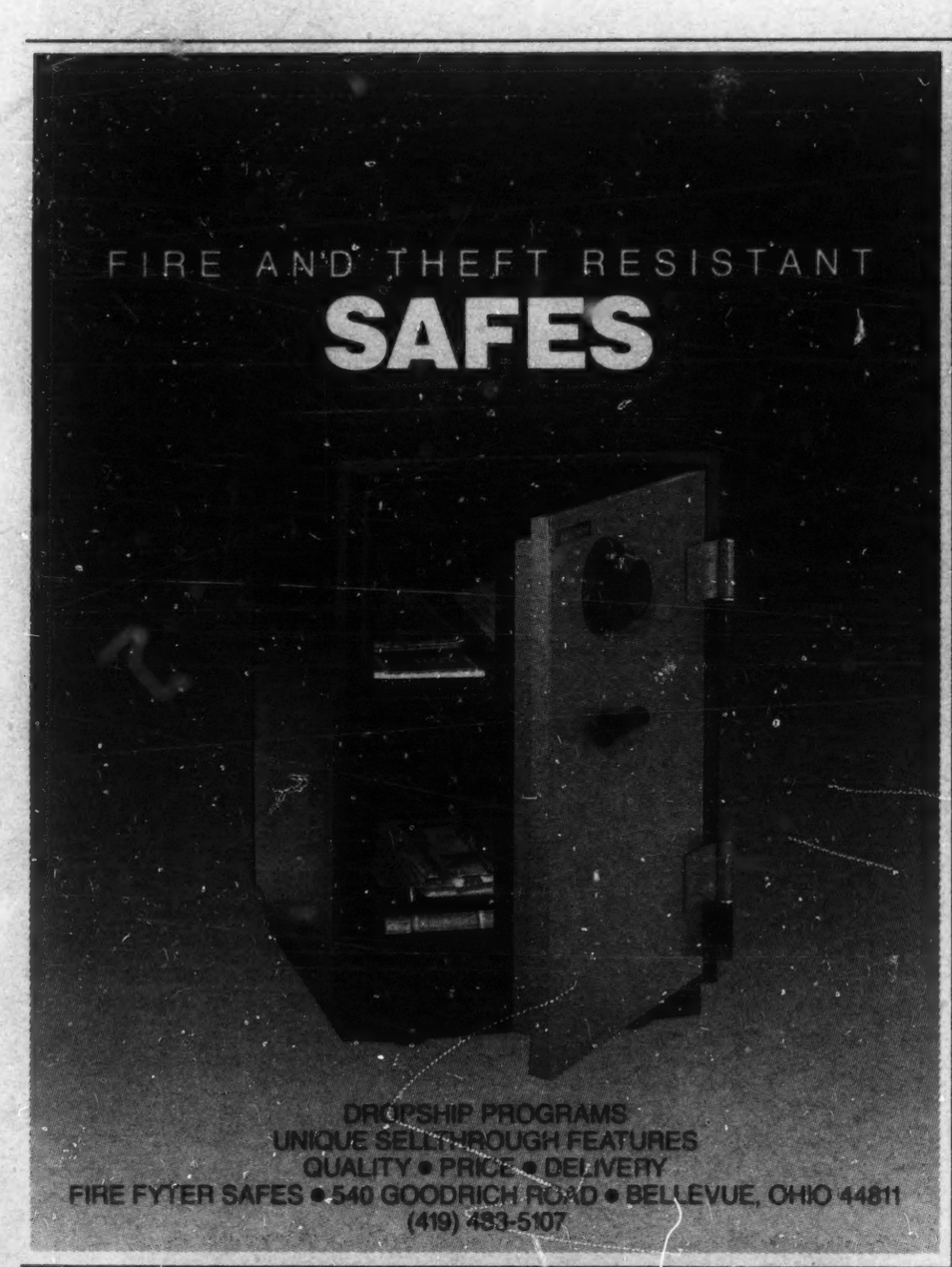
K mart signed a one-year agreement with Prodigy, for an undisclosed amount, and will use about 200 frames—individual computer screen presentations—for its promos. The sequence of screens includes K mart's institution presentation like store locations and product ads.

Prodigy's fees range from $25,000 to $85,000, depending on the number of frames used, the number of viewers seeing the ads and production costs.

The agreement includes the use of "leader" or teaser promotions, short ads that appear on the bottom of screens containing news briefs or sports or weather reports. Only one client's ad appears at one time as a leader on a screen, acting as a draw to the client's full promo.

Jones said Prodigy's editorial content was a selling point. "It's like a magazine, with the leaders [serving as] the hook to capture consumers who use system for information, rather than to shop. It's like advertising in *Women's Day* or *Sport*."

Prodigy can provide K mart, and other clients, with a demographic profile on who views its ads, the frequency and other information. They won't relate the names of the actual viewers, which are confidential.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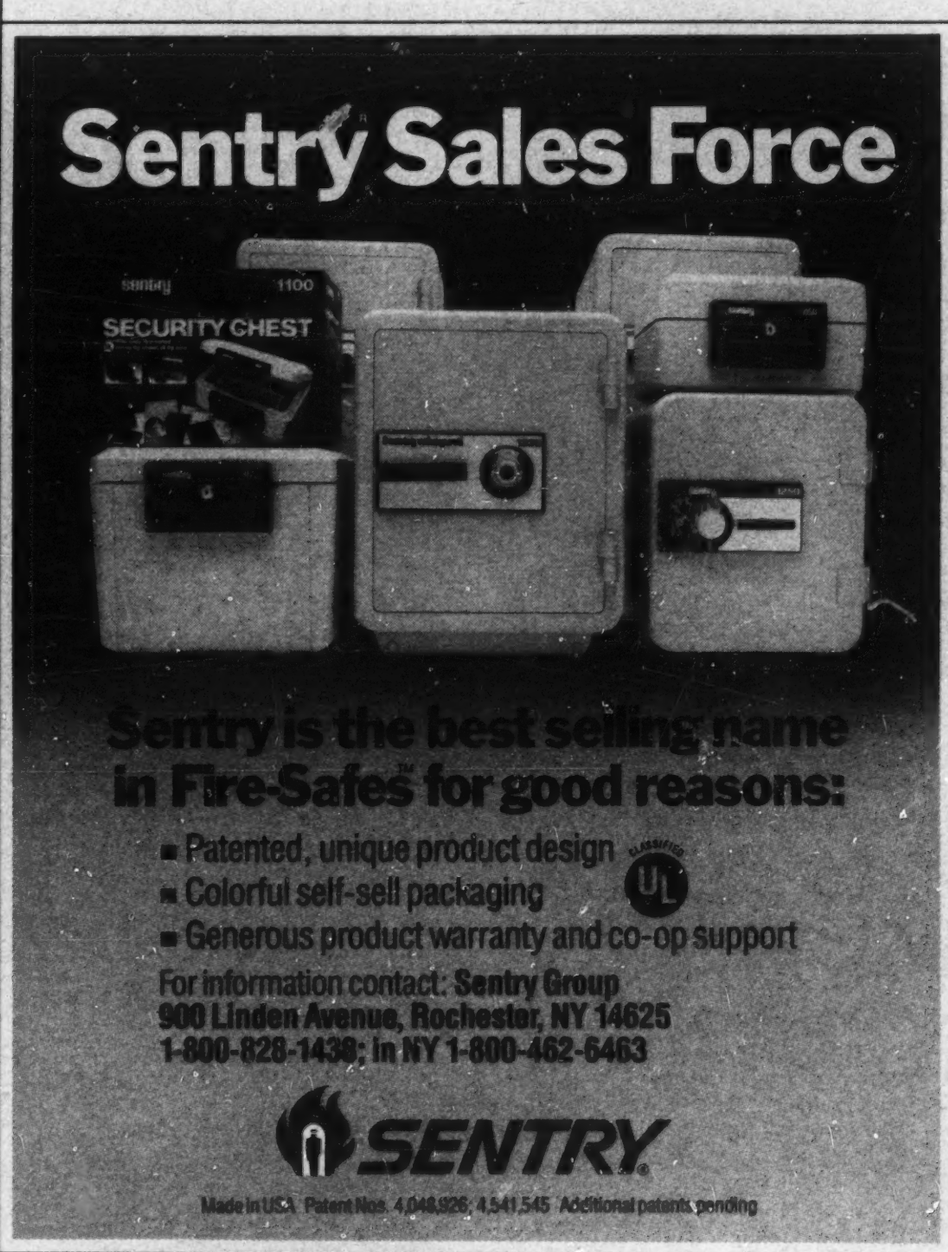
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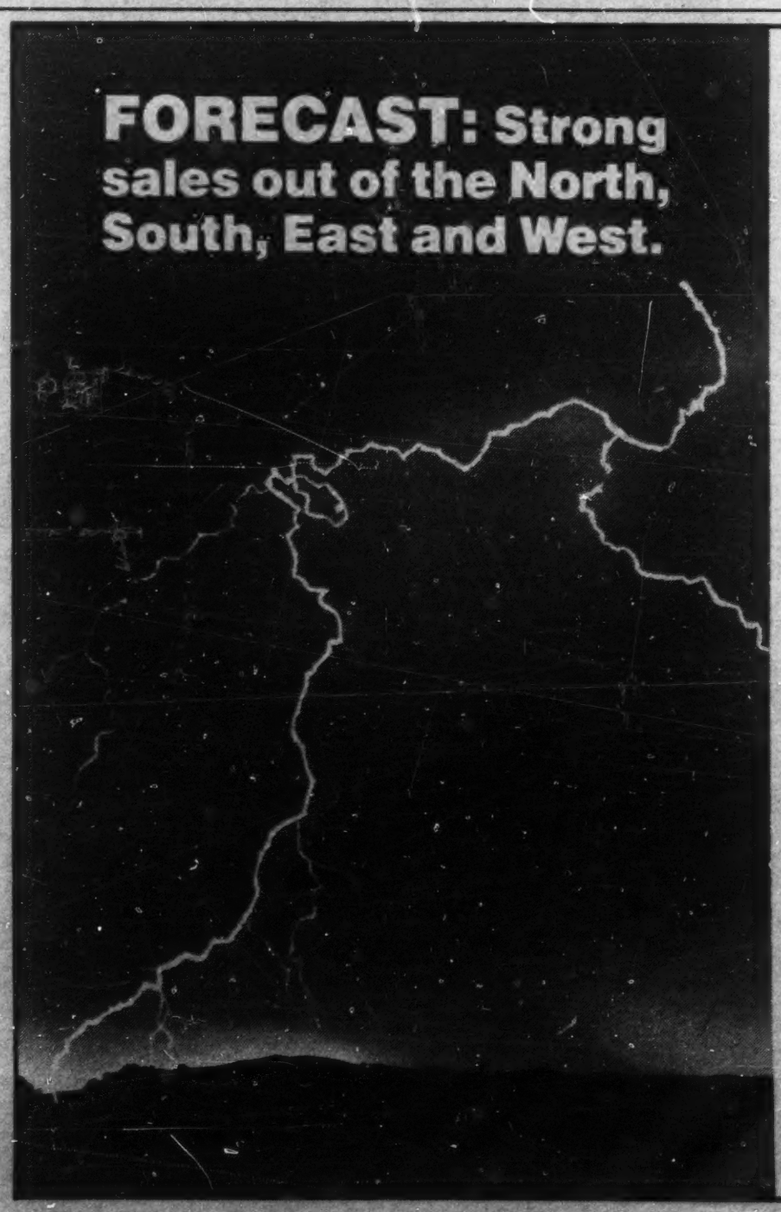

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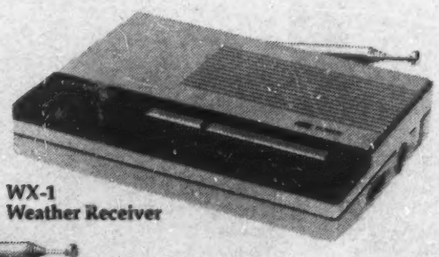
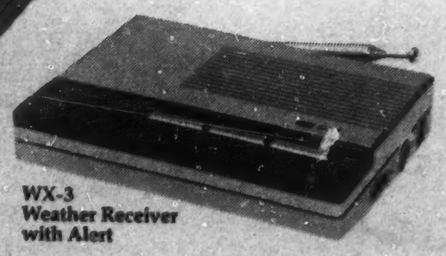

WX-1
Weather Receiver

WX-2
Weather/Time
Receiver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Vol. 27, No. 17August 22, 1988

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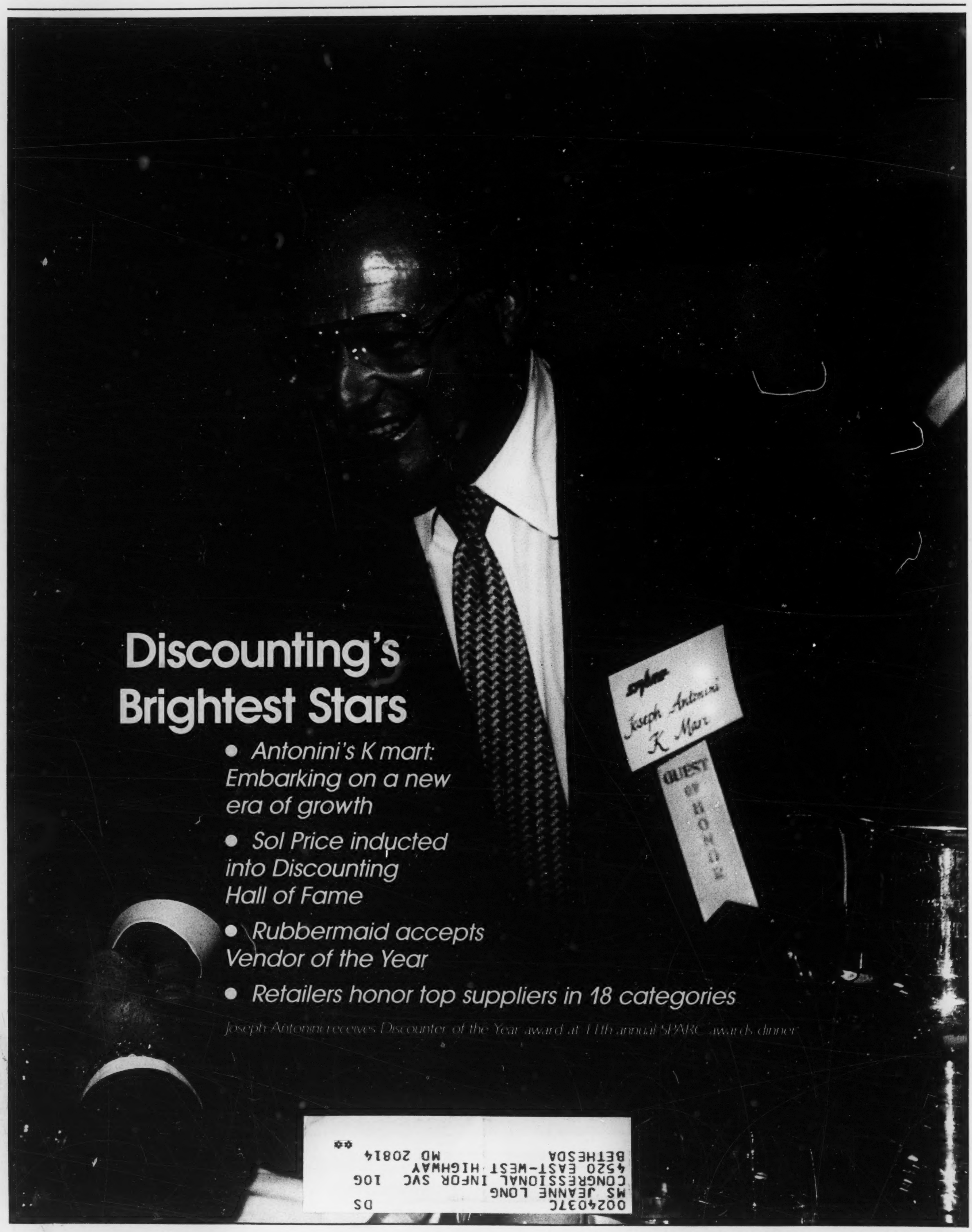
Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

VOL. 27, NO. 19 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | September 26, 1988



Discounting's Brightest Stars

- *Antonini's K mart: Embarking on a new era of growth*
- *Sol Price inducted into Discounting Hall of Fame*
- *Rubbermaid accepts Vendor of the Year*
- *Retailers honor top suppliers in 18 categories*

Joseph Antonini receives Discounter of the Year award at 11th annual SPARC awards dinner

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Ames Buys Zayre Stores

Troubled 388-Unit Discount Division Sold for $800 Million—see story below

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THE NEWSPAPER OF DISCOUNT RETAILING

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Multi-Firm Deal Splinters Gold Circle

Discounters Pick Up 68 Units

By Kenneth M. Chanko

WORTHINGTON, Ohio — After 21 years in operation, the Gold Circle era will officially come to a close in mid-November.

With the sale of the 76-unit upscale discounter to Kimco Development Corp., Gold Circle will be dismantled, with individual units sold or leased by Kimco to three other major discount chains:

- Hills Department Stores, which will lease 35 units;
- Target Stores, which purchased 31 units and sites;
- K mart Corp., which will lease two units.

Milton Cooper, president of Kimco, the Roslyn, N.Y.-based, privately held strip shopping center operator, told *DSN* that he expects to lease the remaining eight units before the end of the month. Cooper would not disclose the price he paid Campeau Corp. for the 76 units or the individual deals he made with Hills, Target and K mart.

Proceeds from the sale of the Gold Circle stores and related assets are expected to total $325 million, which includes sales from inventory liquidation, according to Campeau Corp., Toronto, which last May purchased Federated Department Stores, of which Gold Circle is a division.

The Campeau deal with Kimco does not include Gold Circle warehouses and its central offices, which will be sold separately. Also, since the $325 million figure includes expected revenue from inventory sales, the price Kimco paid for the chain would have

(Continued on page 107)

Gold Circle's demise will redistribute discounter sales: Target gets 31, Hills 35 and K mart 2 of the chain's 76 stores. (DSN photo)

31 Gold Circle Stores Give Target Beachhead for National Growth

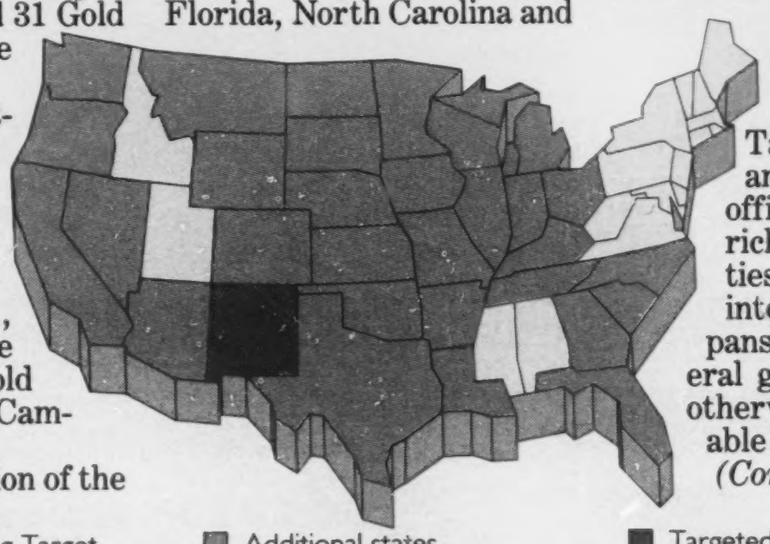
MINNEAPOLIS — In its bid to become a true national discount chain, Target Stores has acquired 31 Gold Circle stores in the Southeast.

The deal, estimated to be worth $130 million by industry analysts, was made by Target with Kimco Development Corp., which purchased the entire 76-store Gold Circle chain from Campeau Corp.

Target's acquisition of the Gold Circle stores and sites allows the chain to enter four new states—Georgia, Florida, North Carolina and South Carolina—while it also provides new territory in Tennessee and Kentucky.

"These are markets we have carefully researched," said Target chairman and chief executive officer Robert Ulrich. "The properties fit very nicely into our planned expansion and offer several good locations we otherwise would not be able to obtain."

(Cont'd on page 110)



■ States containing Target stores prior to Gold Circle acquisition.

■ Additional states containing Target stores after Gold Circle acquisition.*

■ Targeted for expansion by January 1989.

**Target also acquired Gold Circle stores in Kentucky and Tennessee.*

Source: DSN *research*

Hills Gains Fill-in Units For Market Dominance

Acquires 35 Gold Circle Leases

By Laura Liebeck

CANTON, Mass. — Hills Department Stores will become a dominant retail force in Ohio and upstate New York with the acquisition of 35 Gold Circle stores from Kimco Development Corp.

Hills will acquire the leases for the units later this fall and reopen them under its own banner next April.

The stores, ranging from 98,000 square feet to 100,000 square feet, are located in upstate New York, Ohio and Kentucky, offering Hills entry into four new markets: Rochester, N.Y., and Akron, Columbus and Cincinnati, Ohio.

The acquisition also gives Hills a strengthened market position in Buffalo, N.Y., Cleveland a relatively new market for the discounter and in Columbus, Ohio, where Hills has suburban locations, but none in the city proper.

"This expansion is a logical step for Hills," said chairman Stephen Goldberger. "We see these new stores as a perfect geographical fit and we hope to strengthen our existing base with the goal of becoming

(Continued on page 107)

Price Savers Confronts Price Club in Phoenix

By Pamela Krein

PHOENIX, Ariz. — Price Savers, the 15-unit Salt Lake City-based membership club chain, broke Price Club's stranglehold on the wholesale club market here last month with the debut of two greater-Phoenix units.

"Phoenix was a logical expansion from Salt Lake City," Price Savers president Thomas Grimm told *DSN*.

Price Club, the San Diego-based industry leader, also opened its fourth Phoenix club last month, and analysts expect Price Savers' new sites to be complemented by two more clubs next year. The result, said Goldman Sachs analyst Stephen Mandel Jr., will be "the most watched competitive confrontation in the industry over the next year."

(Continued on page 110)

Price Savers' first two Phoenix clubs opened last month with POS scanning capabilities. (DSN photo)

Ames Gobbles Zayre Stores; Discounting's Big 3 Now Big 4

By Peter Hisey

ROCKY HILL, Conn. — Ames Department Stores, which has barely digested the G.C. Murphy stores it purchased in 1986, took another huge gulp, buying the troubled 388-store discount store division of Zayre Corp. for about $800 million, which includes 17.6 percent of Ames common stock.

Ames ceo Peter Hollis had hinted that such a move was a possibility this summer when he told shareholders at the company's annual meeting that while Ames planned relatively conservative expansion over the next year or two, that did not rule out major expansion by acquisition. Nevertheless, few observers expected a move of such magnitude. The purchase, revealed on

(Continued on page 6)

State civil recovery statutes help discounters stem shoplifting losses —see story, page 112

Ames Acquires Zayre Stores

(Continued from page 5)

Sept. 15, creates one of the world's largest retailers, and the discount industry's traditional "Big Three" (K mart, Wal-Mart and Target) must now be considered a "Big Four."

Ames ($2.1 billion) combined with Zayre ($3.3 billion) reaches a total of $5.4 billion in 1987 sales, slightly ahead of Target's $5.3 billion. With 736 discount stores and 161 variety and specialty stores, Ames is now clearly among the top retailers in the country.

According to an Ames spokesman, the company will run the acquired stores under the Zayre name "for now. Ultimately, we will probably convert them to Ames stores." While some office procedures will be consolidated, Ames has no immediate plans to replace Zayre employees. "That's the last thing we'd do," she said. "The quality of Zayre's merchandising and other personnel was one of the main selling points in the acquisition."

A Zayre executive noted that Ames gains a significant benefit; a friendly owner of a significant block of its stock, giving the company additional shelter from corporate raiders and "time to turn the Zayre stores around, something that we didn't have." Zayre Stores lost $55.6 million in the second quarter, and has consistently lost money over the past year.

The purchase moves Ames into new markets, particularly Florida, but further confuses the retailer's strategic focus, which historically has been aimed at rural areas. The Murphy acquisition three years ago afforded Ames opportunities in some metro markets but management has publicly retained a rural focus.

According to Ames chairman James Harmon, the acquisition had been under consideration for "many months."

Hollis added that "the acquisition represents a challenge," but that Zayre's combination of a strong sales base, inexpensive prime sites and experienced management provides the ingredients to "correct recent problems and to build future value."

"The price and timing are right," Hollis added, saying that he thinks that Ames can "accelerate" Zayre's return to profitability.

Maurice Segall, chairman of Zayre Corp., noted that Zayre Stores is a "very good fit with Ames; very few of the stores compete with each other." He cited the "great difficulty" of restoring Zayre's discount division to profitability as the key to the sale, adding that the division had been a "drag on earnings, capital and management." Zayre will now be able to concentrate its energies on its profitable TJX Cos. off-price apparel operations and its two warehouse chains, HomeClub, the home center retailer, and BJ's Wholesale Club, the membership club chain.

Zayre Corp. will own about 18 percent of Ames common stock, and will place two members on Ames' board of directors, although its two nominees will be pledged to vote with management on certain, unnamed key issues. Zayre will be excluded, by agreement, from owning more than 20 percent of Ames stock for the next 10 years.

Segall also noted that no other Zayre divisions are up for sale, and that the proceeds from the sale will be used to retire $250 million in short-term debt, with at least some of the remainder to be distributed to stockholders, perhaps through stock buy-backs.

Sean Lee, last month named president and ceo of HomeClub, said he was "excited" by the development. "If anything, this enhances our ability to grow," he said.

The transaction, which has been approved by both companies' boards of directors, is subject to federal regulatory control and completion of financing arrangements, which Ames said had been made through Citibank, N.A. Ames expected finalization of the deal by the end of October.

Herb Zarkin, former HomeClub chairman and recently named Zayre Stores chairman, will stay with the division as chairman and will also become executive vp of Ames.

According to Hollis, the transaction will involve a combination of about $440 million in cash, $200 million in a block of stock convertible to Ames common stock at a conversion price of $25 per share, and about $200 million in a subordinated note from Ames.

In referring to the acquisition as a "challenge," Hollis alluded to the chain's well-publicized shrinkage problems after the G.C. Murphy purchase in 1986. An Ames spokeswoman said that the company doesn't expect similar problems this time. "Not only did we learn from the Murphy experience, but because this is a friendly takeover, we know much more about them than we did about Murphy."

FOR THE RECORD

Former Crazy Eddie chairman, Eddie Antar, is not facing criminal prosecution, as a recent *DSN* article (Aug. 22) implied. *DSN* regrets that implication. Antar is one of several respondents named by present management in a civil suit that alleges fraud and mismanagement on the part of former management. According to his attorneys, Antar has appeared in that action and has denied the allegations.

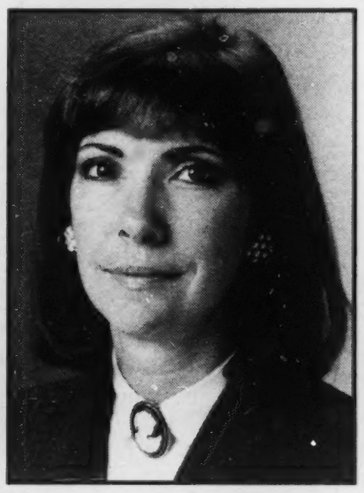
CVN Diversifies Operations, Takes Over Fashion Channel

By Arthur Markowitz

MINNEAPOLIS — CVN Cos. expects to receive final approval at presstime to operate The Fashion Channel, the bankrupt Carson, Calif.-based apparel and accessories-oriented video retailer that CVN has been managing for the past month.

CVN Cos.' operational takeover of TFC is part of the Minneapolis firm's leveraging of its teleshopping and direct mail closeout merchandising businesses to become a more diversified retailer.

William O'Neill



Jo Abendroth

The company has hired executives to fill two new positions designed to support its diversification effort. They are William J. O'Neill, senior vice president, direct marketing, and Jo J. Abendroth, vp for new business development.

CVN Cos.' C.O.M.B. closeout division, meanwhile, is testing "Down to Business" as a potential home office direct mail catalog. Using names culled from C.O.M.B.'s extensive mail order list, the home office catalog, mailed late last month, features newly available closeouts and goods originally offered in the closeouter's regular direct mail catalogs and retail stores. The catalog's future depends on the success of the initial issue.

CVN Cos. expects to receive final approval to run TFC from the U.S. Bankruptcy Court for the Central District of California in Los Angeles. The Fashion Channel filed for Chapter 11 protection in that court on July 22 after it failed to resolve mounting financial problems.

CVN received preliminary bankruptcy court approval Aug. 12 to operate The Fashion Channel. The deal is an unusual Chapter 11 agreement in that CVN Cos. didn't make any payment to The Fashion Channel to obtain the rights to use the name and broadcast on its network of about 600 cable systems, which reaches some 10 million households.

Besides providing the base for a possible bailing out of TFC, the agreement could also help United Cable Television and Tele-Communication Inc., the largest shareholders of The Fashion Channel, recoup their investment. UCT and TCI are members of the consortium of multi-cable systems operators (MSOs) that also own about a 50 percent interest in CVN Cos.

The operational takeover of The Fashion Channel will give CVN Cos. two distinct cable teleshopping shows, the original CVN program that heavily features jewelry and hard lines with a smattering of apparel, and TFC, an all-apparel and accessories show.

CVN Cos. chairman and ceo Theodore Deikel said his company's "action affirms CVN's commitment to the television shopping industry—by stepping forward with a creative solution to resolve the TFC situation."

The terms of the proposed agreement provide that:

- CVN Cos. will retain 97.5 percent of TFC's net sales, less such deductions as taxes, with the bankrupt teleshopper retaining 2.5 percent. TFC's share will jump to 5 percent of any sales in excess of $75 million annually.

(Continued on page 8)

CVN's LawPlan Is First of Its Kind

Video Retailer Offers Legal Services

MINNEAPOLIS — The Cable Value Network has become the first video retailer to offer legal services to its viewers by promoting LawPlan, a legal retailer service.

CVN viewers can sign up for the plan for an annual $119 fee. LawPlan provides basic personal, not business, legal services, ranging from preparing a will to consultation on such as matters as bankruptcy, divorce, liability, deeds and power of attorney. Subscribers will also receive a quarterly newsletter.

LawPlan, however, won't represent subscribers in legal cases. Hyatt Legal Services hopes that customers will hire the company, which has 182 offices with 550 lawyers in 22 states and Washington, D.C., for legal representation.

CVN is marketing LawPlan by running 7-minute tapes of Hyatt Legal Service founder Joel Hyatt explaining the plan, followed by a toll-free number to sign up for the service. The tapes will be run a number of times each day.

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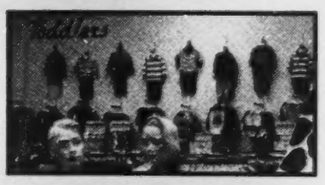

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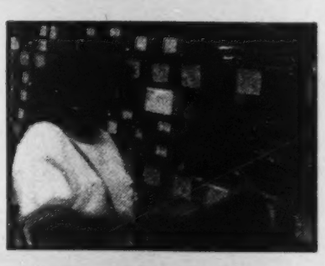

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New York Next on IKEA's Expansion Agenda

By Mary Ellen Kelly

BALTIMORE — IKEA, the three-store, European-style home furnishings retailer, will open its first New York metropolitan market store by the end of next year near what is perhaps the most traveled tract of land in the entire New York-New Jersey-Pennsylvania region.

A second New York-area site, on Long Island, is being negotiated, president Bjorn Bayley told *DSN* at the pre-opening of IKEA's first Baltimore store Sept. 8.

Steen Kanter, executive vp of development, said these store openings are part of a plan to open a total of 40 stores in the U.S. during the next 15 years. The company currently operates three stores in the U.S. and 76 stores in 18 foreign countries. U.S. sales last year were $93 million; worldwide sales topped $2.3 billion.

The New York IKEA, which should be open by the end of 1989 or the start of 1990, will be located on one of the most highly traveled transportation arteries in the tri-state area, Interstate 95, across from Newark International Airport, one of the country's largest airports.

The store represents the first time the home furnishings giant will not be in a mall environment. Executives feel the freestanding store will be able to draw more than enough shopper traffic on its own merits.

Bayley and Kanter acknowledged that several adjustments in the 220,000-square-foot store format will be needed in order for IKEA to achieve optimal performance in the region.

Additional cash registers—as many as twice the dozen being utilized at IKEA's Baltimore store—will be required to accommodate the expected increased volume.

IKEA exec vp Steen Kanter shows off rugs to reporters at opening of chain's Baltimore unit last month. The chain also revealed plans to invade the New York metro market next year. (DSN photo)

The advertising plan is not yet complete, but is expected to be of greater magnitude than the $2 million store opening marketing campaign for the Baltimore location.

Security systems are being reviewed for installation in the Newark (New York) store, Kanter said. IKEA is aware that the store is likely to draw a greater number of lower-income customers than its three other U.S. locations: Plymouth Meeting, Pa., Baltimore, and Woodbridge, Va., all in rather affluent suburbs.

Prior to the Newark store opening, IKEA will be able to test a more urban market when it opens a store in Pittsburgh, sometime next year.

The Newark store will have a 50,000-square-foot to 60,000-square-foot enclosed parking lot, monitored by security guards.

IKEA also invested heavily to ensure that its customers and employees are not subjected to any of New Jersey's well-publicized pollution problems. Kanter estimated IKEA spent nearly $500,000 to conduct soil, water and other environmental tests. About $200,000 was spent on legal fees to safeguard against possible law suits with New Jersey regarding pre-existing contaminants.

Lionel Leaps into Big Apple with City's 1st Discount Toy Store

By Richard C. Halverson

NEW YORK — Kay Cee, the kangaroo symbol of Lionel Leisure's Kiddie City toy chain, hopped into the Big Apple last month, opening Manhattan's first discount toy store.

Located in Midtown, near Macy's flagship store, the Kiddie City toy store softly opened Aug. 31 and celebrated its grand opening Sept. 15.

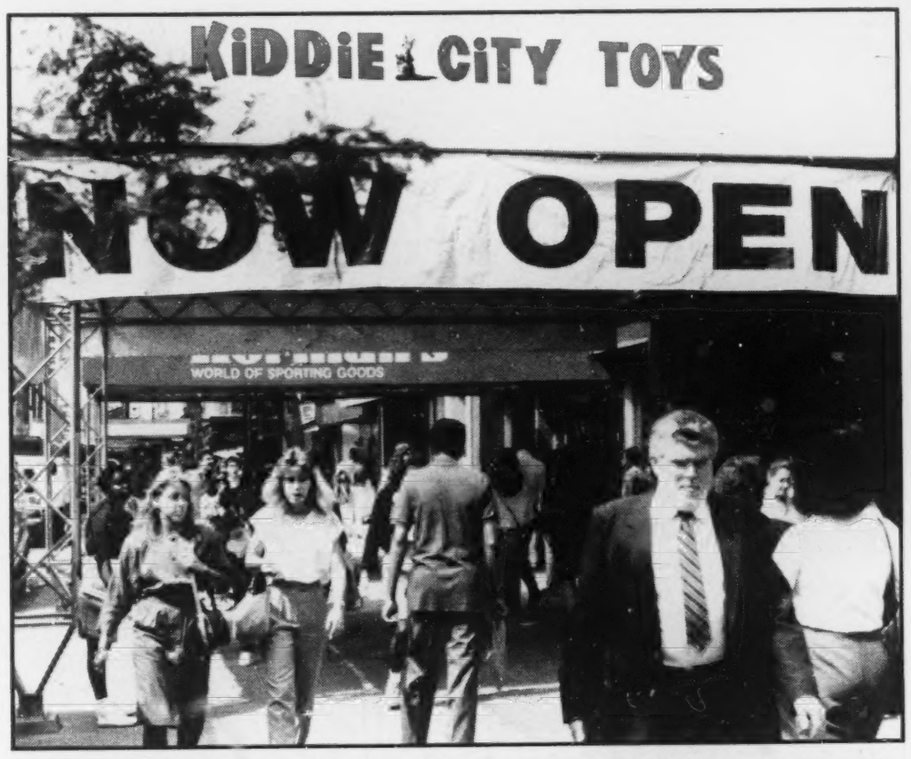
In a further penetration into a new market, Philadelphia-based Lionel also plans to open two stores in The Bronx, the fourth most populous borough of New York City, and another in northern New Jersey by the end of 1988.

One of the Bronx units will open by Nov. 15 in a shopping center being built in Co-op City, a complex of some 5,000 cooperatively owned apartments. Lionel expects to open the second Bronx store and another in Hanover, N.J., prior to the Christmas season, Marvin Katz, coo, said.

Even though it faces higher costs for rent, deliveries and security in Manhattan, compared to its suburban locations, Lionel will follow the same pricing structure, including running continuous red tag specials, said Joel H. Weiner, vice president, advertising and sales promotion.

Lionel projects volume in excess of $10 million from its Manhattan unit, which occupies 27,000 square feet on two floors, Katz said. That would be more than twice the $5 million volume of its average suburban store of 40,000 square feet. Lionel anticipates a higher shrink rate in Manhattan, "slightly in excess of 2 percent," than in suburban stores and is paying higher rent, but it expects to maintain margins due to a different product mix, Katz said.

(Continued on page 107)



Lionel Leisure claims its new Kiddie City is Manhattan's first discount toy store. The chain plans extensive expansion in the New York metro area, with three units slated by year-end. (DSN photo)

Full-line Discounters Achieve Double-Digit First Half Gain

Nationwide DSN Report

Retail sales at discount department stores rose 10.7 percent in the first six months of the year over the year-earlier period, outpacing sales in the entire general merchandise group, according to the U.S. Commerce Department.

Discount department stores sales were an unadjusted $32.3 billion for the first half of '88, compared to $29.2 billion for the same period in '87.

Discount department stores were the only retail category within the general merchandise group to record a double-digit sales increase between the two recording periods.

The general merchandise group includes conventional department stores, national chain department stores and variety stores as well as discount stores and miscellaneous general merchandise stores.

The entire general merchandise group recorded a sales increase of 3.8 percent for the six-month period, to an unadjusted $77.6 billion.

The only other retail store division to record a sales increase for the six months was conventional department stores. Sales at these stores rose 2.5 percent to $20 billion, unadjusted, for the period.

Both national chain department stores and variety stores recorded sales declines during the first half of the year.

Retail sales at national chain department stores fell 4.6 percent during the half, to $14.9 billion, unadjusted. Sales at variety stores fell 2.1 percent, to an unadjusted $3.7 billion.

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Warehouse Club Concept Spreads

Automotives Club Is Business Only

ST. LOUIS, Mo. — Add automotive aftermarket products to the growing list of merchandise categories that are getting the specialty warehouse club treatment.

The Chart Automotive Group, a St. Louis distributor, has opened a warehouse club for businesses only called The Chart Club. The club site is next to the company's distributorship.

Business customers have the choice of letting Chart pick, bill and load their orders or go next door, pay a $75-a-year fee and save about 10 percent by doing it themselves and paying cash. The club is closed to the general public.

The Chart Club, which opened June 7, is an experiment patterned after Sam's Wholesale Club, said a top company official.

"The Chart Club is akin to Sam's in the way merchandise is racked and displayed," the official said, requesting anonymity. The Chart Club carries about 3,500 sku's, or several times the number in a Sam's automotive department, he said.

Where it couldn't compete on price with Sam's, the club has dropped the items, the official said.

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MedClub, a membership warehouse club featuring medical supplies and health aids, has opened in San Diego. The club is open to consumers and medical professionals. (DSN photo)

MedClub Sells 'Wellness'

SAN DIEGO — America's first "wellness warehouse" opened here recently in the city that gave birth to the wholesale club industry.

Drawing on the expertise of a cadre of executives well-versed in the membership club industry, MedClub sells office supplies, furniture, drug sundries, fitness products, medical dressings and clothing, home health care equipment and laboratory supplies to both health-conscious consumers and medical professionals. The store also contains a pharmacy.

MedClub's carefully pruned product mix of 6,500 sku's is aimed at meeting the needs of both customer segments. The result, according to MedClub's marketing vice president Creighton Lawhead, is a "one-of-a-kind concept."

However, while unique, MedClub does compete in many categories with a variety of retailers, including discounters, drug stores, sporting goods stores, traditional membership warehouse clubs, home health care retailers and health care distributors.

Following the operating style of membership warehouse clubs, MedClub has a concrete floor, an open ceiling, steel H-frame racks, cut-case merchandise and a membership-only customer base.

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